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WHY GREECE FAILED

Takis S. Pappas

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On 1 January 1981, Greece became the tenth member of what is now the European Union, well ahead of Spain and Portugal. This was a just reward for a country broadly seen at the time as an unqualified success story. Within just a few years after the 1974 breakdown of a fairly brief dictatorship (the so-called colonels' regime that began in 1967), Greece had been able to establish—and by all appearances consolidate—a liberal and pluralist system with fully inclusive institutions. The early postauthoritarian governments implemented brave policy reforms while striving for political moderation; they also kept the books in order by combining modest borrowing with fast economic growth. At the same time, society seemed to be vibrant and optimistic, with the country's imminent EU entry promising new prospects and opportunities. For nearly three decades thereafter, and especially after its 2001 transition into the Eurozone, Greece appeared to be a perfectly democratic and increasingly prosperous European nation.¹ Hardly anyone seriously doubted the country's continuing success.

But when the global financial and economic downturn hit Europe in 2008, Greece became its first and most abject victim. No longer able to repay its loans and faced with the specter of default, Greece has been temporarily rescued by a series of massive European and IMF bailouts whose price has included painful austerity measures. In politics, the former two-party system that gave the country stable single-party governments is now gone; as the traditional parties strive to form wobbly governing coalitions, new and menacing contestants have emerged on both the left and the extremist right. Society is in shambles. With the economy now going through its sixth year in deep recession, and

unemployment hovering above 25 percent (and around 55 percent for the young), anomie is on the rise and Greece looks increasingly anarchic. Meanwhile, Greece has become a byword and a cautionary tale, a latter-day “sick man of Europe” whose exit from the euro is no longer unthinkable.

Two questions arise: What went wrong in Greece, when so much at first seemed to be going right? And how did such a democracy become possible and manage to sustain itself for almost three decades? The first question calls for an explanation of the *logic* that led Greece to abandon a liberal political arrangement for another that eventually led to disaster; the second question requires an empirical study of the particular *mechanisms* that enabled the new arrangement to work for nearly three decades. Lacking a unified and concise theory about the specific Greek case, one must begin with the existing general theories about what makes some states fail and others succeed. These theories, broadly speaking, stress either the role of culture or that of institutions.

Cultural theories relate the fate of states to culture, and more particularly to its geographical and historical determinants. Countries with hot climates (such as those in Africa), situated in dangerous areas (the Middle East or the Balkans, for instance), or with adverse histories (experiences of having been colonized or engulfed by civil war, let us say) are more likely to remain poor and to fail politically than countries that enjoy more temperate climes, safer neighborhoods, and happier pasts. Cultural interpretations of Greece’s current political maladies (including the common perception of Greeks as lazy) are not in short supply.²

Institutional theories, by contrast, hold that nations stand or fall by their institutions—strong and resilient institutions mean that major political and economic crises can be withstood, while weak institutions crumble and fold under history’s harsh test. Daron Acemoglu and James Robinson, for instance, have recently advanced a comprehensive institutional theory of “why nations fail” that attributes this to a lack of political pluralism and therefore of inclusive economic institutions. “Rich nations are rich,” these authors argue, “because they managed to create inclusive institutions.” In contrast, the most common reason for the failure of nations today is the presence of extractive institutions, as these “keep poor countries poor and prevent them from embarking on a path to economic growth.”³

The Greek case, however, puts both conventional theories to a stern test. Cultural theories fall short of explaining how post-1974 Greece succeeded in building a pluralist political regime *despite* its ostensibly adverse geographical, historical, and cultural conditioning. And institutional theories are at pains to account for Greece’s recent failure, which was not caused by a lack of inclusive political and economic institutions but rather happened *in spite of* them.

Greece, especially when compared to other similarly debt-ridden Eu-

ropean countries such as Spain, Italy, Portugal, or Ireland, is uniquely puzzling in at least two ways. It is both the only country in Europe that saw its state fail in key areas during the recent economic crisis, and the European country that has proven the most resistant to reform. To be credible, therefore, any explanation of the Greek puzzle must account for both the causes that led to state failure *and* the reasons for the exceptionally strong resistance to reforms aimed at restoring to Greece a sustainable state and the ability to compete in global markets.

To this end, I will attempt to synthesize the cultural and institutional theories in order to propose a unified explanation that focuses on the role played by political mechanisms. The beginning of wisdom about the current Greek crisis is to recognize that it is fundamentally political, and that it has been long in the making. Greece's failure is the outcome of a long process during which populism prevailed over liberalism and became hegemonic in society. I herein understand populism simply as *democratic illiberalism* and view it as the polar opposite of political liberalism.⁴ It will be shown that, after having reached power in 1981, populism permeated Greek politics and produced what I will call a "populist democracy," which in turn required two mechanisms: A state bent on handing out political rents to practically every member of society; and a party system built to ensure the distribution of these rents in an orderly and democratic way—that is, *by turns* rather than in one go. Taken together, these two mechanisms led to a fine coordination of aims between the political class and the vast majority of Greeks, enabling both sides to exploit the state and its resources in a seemingly non-zero-sum fashion.

Early Success and the Path to Europe

Although many tend to forget it amid today's ongoing crisis, Greece (along with Portugal) not only stood at the very forefront of the "third wave" of global democratization but also became one of its most exemplary cases. When the military regime that had ruled Greece for seven years collapsed under the weight of its own contradictions and failures, the country for a brief moment found itself in an absolute vacuum of power, internationally isolated, and on the brink of war with Turkey. Things began changing rapidly, however, when Constantine Karamanlis (1907–98), a former premier from the days before the colonels, decided to return from self-imposed exile and took a leading role (as prime minister) in the transition to democracy. In just a few years, Karamanlis and his team transformed Greece into a fully democratic, economically buoyant state with liberal political and economic institutions. As if to crown this impressive effort, Greece was rewarded with EU membership. Here is a brief account of the early Greek success story.

The first great plank in Karamanlis's democratization program was the introduction of inclusive political institutions to serve as the foun-

dation for a pluralist society. Among his initial measures was the full legalization of the Communist Party, together with other once-banned leftist parties. Armed with an impressive electoral majority, Karamanlis quickly neutralized the military as a political force and called a December 1974 plebiscite that eliminated the monarchy, thus leaving the elected presidency and the 300-member unicameral Parliament in sole charge. At the same time, he founded New Democracy (ND), a liberal conservative party, and encouraged the creation for the first time in contemporary Greek history of a moderately pluralist party system. Next, in early 1975 Karamanlis secured parliamentary passage of a new constitution that was the most liberal the country had ever had. The document's aim was to facilitate the forging of a liberal pluralist system that, in Karamanlis's words, would "reinforce the executive without making it any less responsible to parliament."⁵

The creation of inclusive political institutions would hardly have sufficed had there been no means of achieving prosperity and assuring its wide distribution across society. The problem for the new democratic administration in Greece was that neither international conditions nor domestic economic structures favored growth. The two oil crises of the 1970s caused problems, as did the fear of a war with Turkey that made Greece one of the world's highest per capita military spenders. No significant foreign aid arrived to offset these burdens. The economy remained dominated by small-scale agriculture, leaving Greece hard-pressed to compete internationally. Given the circumstances, Karamanlis opted for a model of state capitalism similar to French *dirigisme*. His government sought to use business-friendly monetary policy, strategic investment, and infrastructure expansion in order to move Greece onto the path of modern economic development and greater competitiveness.

With inclusive political institutions firmly in place and a seemingly workable plan for economic growth, the Europeanization of Greece was Karamanlis's third major goal. EU membership, he said, would "radically change the destiny of [Greece] and develop the virtues of the nation while limiting its defects."⁶ There was much more to be gained from membership than financial benefits. Joining the EU would reinforce Greece's fledgling pluralist institutions and safeguard the smooth operation of liberal democracy. It would also put an end to the country's long history of dependence on the United States, thus strengthening national sovereignty. Above all, it would finally resolve Greece's perennial uncertainty—imposed by history and geography—about whether it belonged to the East or the West. Europe's leaders at the time were so impressed by Greece's progress that negotiations advanced speedily, and in May 1978 Karamanlis was able to sign the accession treaty. After a short interim period, Greece became a full member of the EU in January 1981.

Greece could now credibly claim to have become a fully democrat-

ic, politically stable, economically solvent, liberal European state. But Karamanlis had moved to the presidency in 1980, and 1981 was also the year that Andreas Papandreou (1919–96) of the radical Panhellenic Socialist Movement (PASOK) won the premiership with a strong showing at the polls.

Populism Triumphant

Papandreou rose to power by attacking the liberal foundations of the fledgling postauthoritarian democracy from the left, questioning its legitimacy and rejecting its goals. Whereas Karamanlis, who explicitly acknowledged the multiplicity of conflicts in society, had emphasized moderation and actively pursued political consensus, Papandreou introduced populism in its purest form. A master at politicizing resentment, he offered the Greek people a wholly new symbolic master narrative according to which society was divided between two inherently antagonistic groups—an exploiting “establishment,” both domestic and foreign, and the pure “people” standing in opposition to it. Largely as a result of this division, Greek politics assumed a highly confrontational style and also turned distinctly majoritarian. It was to remain so for more than three decades.

In the 1981 national elections, PASOK, the party that Papandreou had founded only seven years earlier, won by a landslide and formed its first single-party government. The new government, abandoning Karamanlis’s strategy of state-led growth and now also receiving generous EU handouts, undertook state-directed redistribution. At the same time, political polarization, rather than subsiding, became more intense. By portraying Greek society as torn between the “forces of light” (meaning PASOK voters and sympathizers) and the “forces of darkness” (meaning opposition voters), the new government used the state and its resources to satisfy its own electoral constituencies and reap further electoral gains, while passing the cost on to the whole of society.

In 1990, after almost a decade of populism, ND returned to office under the leadership of liberal politician Constantine Mitsotakis. Trying to reverse previous practices, the new government moved swiftly to reinvigorate Greece’s economy, reinforce its political institutions, and repair strained relations with Washington and the European allies. With regard to the economy, the ND government made preparing the country for the European single market the top priority, and accordingly moved to cut public spending and reform the civil service. A privatization agenda was adopted with the same goal in mind. The opposition’s intense resistance made the proposed structural reforms and policy alternatives hard to implement, however, and in 1993 the ND government collapsed, opening the way for Papandreou and PASOK to return to power.

After its dismal, defeat-capped spell in power in the early 1990s, ND faced a choice: Should it cling to liberalism or learn to play the game of vote-catching populism? As it turned out, the Mitsotakis government had been liberalism's feeble last hurrah. Populism's strong pull soon made it a permanent feature of Greek politics. By the mid-1990s, ND had rebranded itself as a "people's party" and thereafter tried to outbid PASOK's already excessive promises. This trend became particularly pronounced when Costas Karamanlis, the founder's nephew, served as ND's leader between 1997 and 2009. He expelled the most prominent proponents of political liberalism from the party and took to spouting rhetoric that made him sound more like Andreas Papandreou than like his own uncle and mentor.

When Papandreou fell terminally ill and resigned the premiership in early 1996, the PASOK caucus in Parliament made Costas Simitis the new party leader and the premier of Greece. A moderate and methodical technocrat decidedly free of charisma or much appeal to the masses, Simitis pursued a program of modernization focusing on extensive public investment in infrastructure, as well as on economic and labor reforms to harmonize the Greek economy with the rest of Europe. He led PASOK to electoral wins in 1996 and 2000, and as premier ushered Greece into the Eurozone. Despite his reformist efforts, though, Simitis and his modernizing group found themselves "forced to rule within the entrenched material boundaries drawn by the party's pro-popular policies in the 1980s."⁷ In a real sense, PASOK remained permeated by populism, which fed cronyism, corruption, and inefficiency and led to its defeat at the polls in 2004.

The ND governments that held office from 2004 to 2009 vowed to reform the state administration and fight inefficiency and corruption, but in reality accomplished little. As under PASOK, reforms remained a lost cause. Of the few reforms that ND tried, none was implemented successfully despite the existence of several favorable factors, including "a unitary state, majoritarian and stable one-party governments with strict party discipline, and few veto players."⁸

Indeed, the failure to make badly needed changes in such key areas as pensions and health (under PASOK) and education (under ND) became the most striking feature of *all* governments in Greece's populist democracy. Not only were these reforms opposed by strong interests in society and never fully implemented, but the politicians who sought to introduce them were punished at the polls, and some retired from public life. Reformism stood exposed as a political loser.

Thus for three decades—from PASOK's rise to power under Andreas Papandreou in 1981 to the resignation of his son, Prime Minister George Papandreou, to allow a caretaker government to deal with the debt crisis in 2011—Greece's two major parties had been able to hold office alternately, in most cases commanding ample parliamentary ma-

majorities: PASOK ruled during 1981–89, 1993–2004, and 2009–11; ND enjoyed office during 1990–93 and 2004–2009. The stillborn coalition governments that formed during the extraordinary circumstances of the short period extending from June 1989 to April 1990 (and that also included the Greek Communist Party) stand as an unusual parenthesis within the two major parties' consistent alternation in power. During those decades, Greece developed as a populist democracy, a democratic subtype in which the party in government and (at least) the major opposition party *both* are populist. What were the nuts and bolts of this system, and how did it last for such a long time? In order to answer these questions, we must first understand the two chief mechanisms that made populist democracy feasible: the redistributive capacity of the increasingly large Greek state and the polarizing mechanics of the Greek party system.

Political Patronage, Greek-Style

In the view of many, political patronage is the main cause of the Greek crisis.⁹ In mainstream theory, patronage is seen as a linkage between politicians and citizens. Such patron-client ties are “based on direct material inducements targeted to individuals and small groups of citizens whom politicians know to be highly responsive to such side-payments and willing to surrender their vote for the right price.”¹⁰ In this understanding, patronage has two features: first, a distribution of state-related benefits (or political rents) to specifically targeted social groups; and second, the material character of such inducements. Greece's populist democracy, however, exhibited a variant of patronage whose features are notably different from those recognized by mainstream theory.

The first Greek particularity was that rents and other inducements or entitlements were not only material, but also included benefits such as widespread *de facto* immunity from the law. The second difference is related to the nature of populist democracy itself: Inducements were still targeted at specific groups but, since society had been divided into two irreconcilable parts represented by parties regularly alternating in power, *all* citizens could reasonably expect to gain from patronage once their own party won elections.

Overall, Greek society became the recipient of three types of state-related benefits: real incomes (such as salaries and pensions) derived from classical patronage functions; privileged protection against market risks; and impunity from the law.

Until PASOK came to power, the Greek state was relatively small, employing about 510,000 people out of a population then numbering about ten-million. As shown by the time-series data provided by the International Labor Organization (ILO) and corroborated by many other

sources, total public-sector employment in Greece skyrocketed during the 1980s (reaching 786,200 employees by 1990, an increase of more than 50 percent in a single decade) and continued to grow at least until 2008. In that year, Greece had slightly more than a million public-sector employees—enough to make up a stunning 21 percent of the entire active workforce—and this amid an overall national population that had grown by only about 10 percent, to around eleven-million people. Why would a populace that had grown by only a tenth need its civil servants to more than double in number?

A similar increase occurred in spending on pensions and other forms of social protection starting in the early 1980s, when “pensions were increased, coverage was extended to new groups of [the] population and the level of minimum pensions provided by IKA [Greece’s major pension fund for private wage earners] was fixed at 20 times the minimum wage of unskilled workers.”¹¹ Social spending kept rising steadily over the following decades despite demographic and labor-market changes. In precrisis Greece, pension expenditures (which equaled 11.5 percent of GDP in 2005) were among the highest in the OECD, which averaged a mere 7.2 percent.¹² The official retirement age in Greece was 65, but early retirement was widespread. Only 44 percent of workers aged between 55 and 64 were still actually holding jobs, as compared with an OECD average of 52 percent. At the same time, pensioners who had worked a full career (that is, until the age of 65) received on average a pension equal to 96 percent of their previous earnings, compared with an average of 59 percent for the OECD.

The Greek state also sought to shield a large number of professions for typically clientelistic reasons. In July 2011, the Finance Ministry presented a list of more than 130 closed-shop professions, including lawyers, pharmacists, engineers, architects, truck drivers, port workers, auditors, electricians, financiers, private investigators, insurance consultants, hairdressers, newsstand operators, taxi drivers, real-estate agents, notaries, and street-market vendors. The common characteristic of all these guild-like professions is that, through a dense tangle of regulations and licensing requirements, their members have enjoyed state-protected monopolies and profits ensured by law.

Typically, the state imposed minimum price and profit levels as well as special parafiscal duties and other levies on taxpayers in order to make society as a whole prop up the closed-shop professions. Such charges had a regressive impact on income distribution and led to an ineffective allocation of state resources. Not surprisingly, they also triggered a boom in the number of such state-protected professions in recent years, as trade after trade lobbied for admission to the golden ring of state favor.¹³ It is also not surprising that resistance to reforms, even after the crisis made them imperative, has been especially strong among the members of these professions.

A third and still more outlandish form of distributing state-related resources across society was simply to let people expropriate them with impunity. For decades, Greeks were

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allowed to act illegally against the state's interests with no punishment—through rampant tax evasion, unauthorized construction, pension fraud, and legislative immunity.

As fiscal authorities freely admit, a third of Greeks fail to pay the taxes that they owe. To a large extent, this has been because the law goes unenforced, especially in election years. In an effort to ameliorate the problem, the Greek state regularly grants tax amnesties as a way of encouraging

voluntary compliance. The practice of informal building development, especially on public land, constitutes another avenue by which private individuals help themselves to state resources. It has been estimated that as many as a million homes and other dwellings have been built illegally in Greece in recent decades. In a fashion that resembles their response to rampant tax evasion, successive cash-strapped Greek governments have periodically promised to legalize illegally built dwellings for a fee.

Then there is pension fraud. In 2012, the Ministry of Labor reported that about 40,000 persons had wrongly been collecting pension benefits, in some cases for as long as twenty years. According to other sources, the number of such pension cheats is actually closer to 200,000. Finally, there is the impunity enjoyed by state officials themselves. Members of Parliament are immune from criminal prosecution, arrest, or detention while in office. Moreover, any crimes alleged against them during their time in Parliament may be adjudicated only after a process of parliamentary impeachment held by an ad hoc “special court.” In practice, however, parliamentary investigative committees have seldom allowed the lifting of immunity. These and other similar examples indicate that the vast majority of Greeks have been allowed to gain individually at the expense of the public good, while the rule of law has degenerated and corruption has flourished.

For several decades, then, practically every Greek could reap rents from the state. The existence of such a varied array of rent-gathering mechanisms had a common effect on the Greek mindset, as “almost all Greeks, from large business owners to small landowners on islands and to municipal clerks in villages, [came to] believe it is natural to have some income which derives neither from work nor from risking capital.”¹⁴ Still, given the finite nature of state-related resources, there needed to be a way of distributing them in a prudent and politically sustain-

able way. This brings us to the second mechanism that made populist democracy workable for a time—the party system.

A Polarized Two-Party System

The 1981 election spawned an unusual party system that combined the format of two-party politics with the mechanics of polarized pluralism, which I will call “polarized bipartism.” It served to keep society divided into two conflicting parts, each represented by a major party. The regular alternation in power of the two rival parties made possible the distribution of political rents to society in an orderly, democratic, and economical way.

Interestingly enough, partisan polarization in Greece has not been primarily ideological, as happens in pluralist systems with multiple cleavages (such as differences of class, language, region, or religion, which often create deep social rifts) and a large spread of public opinion. Greek polarization has instead been *strategic* polarization, pursued deliberately by pragmatic parties competing to grab the state single-handedly and control its resources. To this purpose, each party had an incentive to step up polarization as it tried to win the nonideological, ambivalent voters in the middle through various inducements. This not only forged in-group solidarity; it also increased the insecurity of political opposition and, therefore, the chances of its fragmentation.¹⁵

Not long after its transition to democracy and under the pressure of rising populism, Greece saw its party system go from moderate multipartism to an essentially two-party affair.¹⁶ From 1981 until the 2009 elections, the Greek two-party system continued to function—on one level at least—as such systems normally do: There were two major parties, each of which found itself in a position to compete for an absolute majority of seats in Parliament. One of the two would win a parliamentary majority large enough to allow that party to govern alone. Most importantly, the two parties regularly alternated in power.

Despite its two-party *format*, however, Greece’s party system displayed distinctly polarizing *mechanics*, which enabled political actors to portray society as being divided into two political camps, each resembling a close-knit majoritarian community given to denying its opponents’ legitimacy. As a result, the center—in the sense both of centrist parties and of moderate liberal ideological and policy positions—fell into decay. What was left was a polarized competition between rival sets of populist forces that vied against each other to represent “the people.”¹⁷ It may be helpful at this point to contrast the mechanics of Greece’s polarized bipartism with the classical two-party model.

According to the “spatial model” of party competition in liberal democracy,¹⁸ two-party systems are associated with ideological moderation, centripetal tendencies, and the politics of compromise, as both

parties, despite the inescapable multidimensionality of issues, have an incentive to converge at the center of the party-competition space (where the median voter dwells) by “soft-pedaling cleavages.” In classic bipartism, therefore, centripetalism becomes a rewarding strategy because the majority of voters, especially the undecided, are located somewhere between the two major parties, creating a situation in which “the spread of opinion is small and [its] distribution single peaked.”¹⁹

The paradox presented by Greece’s populist democracy should be obvious by now: It displays the format of bipartism, but produces the mechanics of what Giovanni Sartori has described as a “polarized pluralist” system, including a prevalence of centrifugal rather than centripetal political tendencies and an irresponsible opposition that thrives on the politics of outbidding or overpromising. The result is a novel type of party system that develops in populist democracies and is here termed “polarized bipartism.” The paradox becomes even more intriguing if we consider that bipartism, precisely because of an expectation of alternation in government, is presumed to nurture political moderation, consensus on fundamentals, and centripetal party competition. How to explain this paradox of centrifugal dynamics in a two-party format? The answer hinges on the nature and logic of populism itself, especially its tendency to reduce all politics to a single dimension of conflict, its emphasis on deliberate polarization, and its quest for majoritarianism.

Unlike classic bipartism in liberal democracy, where a variety of cleavages intersect to produce a multidimensional voting space, the type of bipartism found in populist democracy tends to reduce party competition to a single dimension. Politics, in other words, becomes a confrontation between a majority (the masses, the people, the underprivileged, the poor) and some minority (the elite, the establishment, the privileged, the rich). Given this simple, albeit symbolically powerful, ordering of society along a single dimension, as well as the strong majoritarian impulses that are typical of populism-permeated systems, both major parties in populist democracies have every incentive to play up rather than soft-pedal polarization. In such cases, as issue-based voting becomes secondary at best, parties strive to vilify their opponents, outbid them, or both. Accordingly, as the average voter turns to the highest bidder, societies tend to cluster around opposed poles; as the majority of the people cleave to one pole or the other, the middle ground is lost and the median voter becomes a rare phenomenon.

The problem, however, is that when politics is polarized, bipartism does not work. In such a system, in which bipartism fails to produce a political society characterized by moderation and what John Rawls famously called “overlapping consensus,” polarization breeds political instability and the system becomes dysfunctional. In this case “we should expect the parties to become more than two and another type of

party system” to emerge.²⁰ And indeed, this is exactly what happened in Greece during the successive elections of May and June 2012, when bipartism collapsed and gave way to extreme pluralism, with once-marginal parties such as the left-wing Syriza coalition and the right-wing Golden Dawn gaining significant (or in the case of Syriza, even major) shares of seats in Parliament.

A Planned “Tragedy of the Commons”

As the crisis raged, former PASOK deputy premier Theodoros Pangalos sparked controversy by presenting it as a typical “tragedy of the commons” in which selfish and reckless individuals chose personal gain over societal well-being. As he told Parliament on 21 September 2010, “We [Greeks] all ate it up together following a practice of wretchedness, bribery, and squandering of public money.” The problem with this and similar interpretations, however, is that the Greek political system is *not* an unmanaged commons in which uncoordinated individuals try to increase the marginal utility of public goods to themselves. Instead, the Greek crisis has been the result of a perfectly institutionalized political system that was built with intent and design, and remained functional for a long time because of a high level of coordination that was achieved between the country’s political class and the vast majority of Greeks.

The crisis in Greece has been the outcome of its particular system of populist democracy—that is, a democracy in which both the party in office and its main rival are populist. As noted above, two mechanisms made this system endure for nearly three decades. The first was a state intent on distributing political rents as widely as possible; the second was a party system ensuring the widespread delivery of state benefits via party rotation in office. With two strong populist parties regularly alternating in power and being in control of a generous state keen to distribute political rents, voters learned that the state was up for grabs and that it was better to associate with the state through party contacts rather than venture into the market through competition. They also learned through electoral iteration that even if one’s party lost at the polls, it was likely to return to power next time around. Politicians learned that there was no mileage in reformism—society would only penalize them for it at the ballot box. Based on this widely shared understanding, Greece’s populist democracy worked relatively well until the crisis broke out, instantly revealing that the Greek state had run out of resources. From there, it was only a matter of time until the 2012 elections confirmed the collapse of Greece’s populist democratic system.

Liberal democracy rests on a contract between the governors and the governed based on institutional and other tacit agreements, all of which assume that individual well-being depends on the promotion of

the public good. With such an understanding, the state remains impartial and is widely seen as aiming to furnish public goods (as opposed to political rents). To the extent that states can act in accord with such rules, they gain legitimacy, and as societies by and large also abide by the same rules, politics turns into a positive-sum game.²¹ Contrast this with the social and political contract that developed in Greece's populist democracy.²² According to the logic of that system, the state was not an impartial promoter of the public welfare, but rather a resource to be appropriated by individuals eager to enhance their own private well-being. Yet, because of the alternation in power of the major parties, the system was anything but a zero-sum game. In reality, almost all members of society gained by turns. This also points to a credible explanation of the system's durability, based on the principal-agent theory of voting in democracy.

Consider, first, how this theory works in an ordinary liberal democracy, where voters (or principals) "lay down, *ex ante*, a contingent reward structure for their leader (or agent). That reward structure ties the agent's ambition [to remain in office] to her [current] performance."²³ The theory rests on two key assumptions. The first is that principals and agents have different and often conflicting interests. The second is that agents enjoy a lopsided informational advantage over their principals. Taken together, these two assumptions imply that agents, unless closely watched, have both the means and the motive to act opportunistically and betray their principals' interests. Principals retain the last word, however, since they always have the power to choose new agents.

The theory worked differently in Greece, however. As a result of the political contract that came to prevail under long populist rule, none of the above assumptions could hold true. In an environment of perfectly symmetric information, principals and agents became entangled in a high-level coordination game aimed at exploiting the state, albeit with each set of actors serving its own particular interests, whether by raking in state-related benefits (principals) or holding on to power and office (agents). Ironically, and rather perversely, within such a system reformism would not pay off. And on occasions when parties or, more usually, individual politicians were bold—or careless—enough to introduce a reform agenda aimed at promoting the general public welfare rather than particular interests, they were punished at the polls.

The current financial and economic crisis has led to the demolition of the two mechanisms that, for decades, had supported Greece's populist democracy. On the one hand, the Greek state, now short of external funds and with its creditors hounding it to apply harsh austerity measures, no longer has rents to hand out to society. On the other hand, the two-party system that was vital to the orderly distribution of rents lies shattered and, for the time being at least, has given way to an extremely polarized form of multipartism.

Also gone along with these two mechanisms, of course, is the old sociopolitical contract on the basis of which voters and politicians coordinated their actions, individually benefiting from the state at the expense of the public good. Quite clearly, then, Greece's political leadership badly needs to forge a new, shared social contract. It must provide the mechanisms that will restore the liberalism which populism put to rout—a liberalism that must return if Greece is to have a better future and a safe place within the European fold.

NOTES

1. By 2008, Greece was one of the world's thirty richest countries and ranked 22nd in the *Economist's* Index of Democracy; that is, only one rank below the United Kingdom and above France, Portugal, and Italy.

2. See, for example, Robert Kaplan, "For Greece's Economy, Geography Was Destiny," *New York Times*, 24 April 2010; Peter Osborne, "Some European Countries Are in the Habit of Going Bankrupt," *Telegraph*, 24 March 2011; and Richard Cohen, "The Great Greek Illusion," *New York Times*, 20 June 2011.

3. Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York: Crown, 2012), 364, 398.

4. The *liberal* conception of representative democracy requires admitting the multidimensionality of cleavages in society; seeking consensus; and stressing constitutionalism and the rule of law. The *populist* model of democracy, by contrast, features the idea of a society riven by a single cleavage ostensibly dividing "the people" from some entrenched elite; views politics as a zero-sum game; and hews to majoritarianism and the logic of "winner takes all." And as William H. Riker correctly pointed out, liberalism and populism "exhaust all the possibilities for democratic theory." See his *Liberalism Against Populism* (New York: Waveland, 1982), 241.

5. Cited in Takis S. Pappas, *Making Party Democracy in Greece* (Basingstoke: Macmillan, 1999), 40.

6. Pappas, *Making Party Democracy in Greece*, 147.

7. Vassilis Fouskas, "The Muffled Voice of the New PASOK: Reflections on Neo-Revisionist Socialism in Greece," *South European Society and Politics* 3 (March 1998): 130–41.

8. Stathis Kalyvas, George Pagoulatos, and Haridimos Tsoukas, eds., *From Stagnation to Forced Adjustment: Reform in Greece, 1974–2010* (New York: Columbia University Press, 2013), 2.

9. Michael Mitsopoulos and Theodore Pelagidis, *Understanding the Crisis in Greece: From Boom to Bust* (Basingstoke: Palgrave Macmillan, 2011).

10. Herbert Kitschelt and Steven I. Wilkinson, eds., *Patrons, Clients, and Policies: Patterns of Democratic Accountability and Political Competition* (Cambridge: Cambridge University Press, 2007).

11. Polyxeni Triantafyllou, "Greece: Political Competition in a Majoritarian System," in Ellen M. Immergut, Karen M. Anderson, and Isabelle Schulze, eds., *Handbook of West European Pension Politics* (Oxford: Oxford University Press, 2006), 122.

12. The data in this section are taken from OECD, *Greece at a Glance: Policies for a Sustainable Recovery* (Paris: OECD, n.d.).

13. Greece, for instance, has 40,000 lawyers, or one for every 250 citizens, when in Germany the ratio is one for every 593 and in France one for every 1,403. In Greece there is one notary for every 3,446 citizens, whereas in France there is one for every 7,287, in Italy one for every 12,023, and in Austria one for every 17,926. And Greece has one pharmacy for every 950 people, when the European average is one for every 4,000. Belgium has the second-largest ratio with one drugstore for every 2,450. These figures appeared in the Athens newspaper *Kathimerini* on 10 August 2010.

14. Aristos Doxiadis, "The Real Greek Economy: Owners, Rentiers and Opportunists," *openDemocracy.net*, 23 September 2010.

15. A similar type of intentional polarization in today's Venezuela has been analyzed in Javier Corrales and Michael Penfold, "Venezuela: Crowding Out the Opposition," *Journal of Democracy* 18 (April 2007): 99–113. See also their *Dragon in the Tropics: Hugo Chávez and the Political Economy of Revolution in Venezuela* (Washington, D.C.: Brookings Institution Press, 2011).

16. Takis S. Pappas, "The Transformation of the Greek Party System Since 1951," *West European Politics* 26 (April 2003): 90–114.

17. In populist democracy, the space for electoral competition between the populist parties becomes so large, and so sparsely populated by liberal-minded voters, that it becomes a graveyard full of smaller parties that, in effect, died of moderation. In Greece, about a dozen such parties have tried in recent decades to grow between PASOK and ND, only to wilt after an election or two.

18. Anthony Downs, *An Economic Theory of Democracy* (New York: Harper, 1957).

19. Giovanni Sartori, *Parties and Party Systems: A Framework of Analysis* (Cambridge: Cambridge University Press, 1976), 191.

20. Sartori, *Parties and Party Systems*, 192.

21. See Bruce Gilley, *The Right to Rule: How States Win and Lose Legitimacy* (New York, Columbia University Press, 2009); and Gretchen Helmke and Steven Levitsky, "Informal Institutions and Comparative Politics: A Research Agenda," *Perspectives on Politics* 2 (December 2004): 725–40.

22. Autocratic or neopatrimonial systems are different, of course: There is no shared contract and the expectation is that the state exists not to serve the public good but to be a tool for the short-term enrichment of the predatory few.

23. Morris P. Fiorina and Kenneth A. Shepsle, "Formal Theories of Leadership: Agents, Agenda Setters, and Entrepreneurs," in Bryan D. Jones, ed., *Leadership and Politics: New Perspectives in Political Science* (Lawrence: University Press of Kansas, 1989), 18.